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Prospects for Indonesia

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PROSPECTS FOR INDONESIA

THE PROBLEM

To assess current trends in Indonesia and to estimate prospects over the next year or so.

CONCLUSIONS

A. Suharto and his anti-Communist military and civilian coalition are clearly in charge in Indonesia and are likely to remain so, at least for the next year or two. Although Sukarno's influence is declining steadily, he is still a major preoccupation of the regime, an obstruction in its daily work, and a source of political embarrassment. During 1967, however, he will probably be stripped of all effective political power, retaining at most the ability to offer occasional encouragement to frustrated leftist elements.

B. With the Communist Party already destroyed as an effective force in today's politics, the neutralization of Sukarno would greatly improve the outlook for political stability in Indonesia. Nevertheless, there will still be major problems of adjustment. Civilian politicians will be in conflict with military leaders reluctant to share power. And the mass parties of the Sukarno era will have to compete for influence with resurgent and reformist political elements closer to Suharto's "new order."

C. The Indonesian economy cannot quickly recover from a decade and more of ruinous mismanagement, but it is probable that economic conditions will at least cease to deteriorate and begin to improve within a year or two. If foreign assistance continues at high levels and government administration becomes more effective, an economic upturn could probably be sustained until 1970. The need for foreign economic assistance—which can only be expected to come from the US, Japan, and Western Europe—virtually assures continuation of Indonesia's new Western-leaning foreign policies.

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DISCUSSION

I. INTRODUCTION

1. Sixteen months ago, Indonesia appeared to be on the threshold of becoming a Communist state, or in Sukarno's words, "entering the socialist stage." Under the aegis of Sukarno, then in a position of unchallenged power, Communists and their supporters had gained a major role in the government. The Communist Party (PKI) had established itself as the best organized and most dynamic political entity in the country. Overt anticommunism had become virtually a crime. In foreign relations, Sukarno had aligned Indonesia with Peking in vehement opposition to US policies in East Asia and elsewhere in the world. Perhaps most important, Indonesia's anti-Communist army leadership, the only element capable of stopping a Communist takeover, appeared unwilling to act against the dictates of Sukarno.

2. The events of a few days in early October 1965 dramatically altered this situation. On 1 October, a group calling itself the "30 September Movement" kidnaped and murdered six generals, including the army commander, General Yani, and announced the formation of a strongly leftist Revolutionary Council to take over the government. The Movement was crushed in a day or two by the army under the leadership of General Suharto. Taking advantage of the PKI's involvement in the coup attempt, the army moved to destroy the party. When it became apparent that Sukarno was actively opposing the anti-Communist campaign and the resulting changes in the country's domestic and foreign policies, the army broadened its objectives to include the drastic reduction of his authority and the elimination of his doctrines. In the army's view, these had brought Indonesia to the brink of Communist domination, economic chaos, and war with Britain.

3. The campaign against Sukarno has made considerable progress. Though he still holds the titles of President and Prime Minister, real power in Indonesia has passed to a coalition of anti-Communist and anti-Sukarno generals and politicians. The PKI has been destroyed as an effective political force, while established non-Communist parties and groupings have gained strength. New political elements have emerged which are vigorously opposed to Sukarnoism and other forms of authoritarianism. The Suharto government has promised to hold nationwide legislative elections before July 1968.

4. This generally favorable prospect is clouded, however, by the influence still exerted on the political scene by Sukarno, by vestiges of Sukarnoism, and by remnant Communists and their sympathizers. Moreover, the single-mindedness of purpose among the anti-Communist, anti-Sukarno forces has weakened along with the threats that united them. The civilian politicians have become increasingly aware that the military leadership does not intend to return to parliamentary government as it existed before 1958. Within civilian ranks, longstanding cleavages between Muslim and secularist, modernist and tradi-

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tionalist, Javanese and non-Javanese have also become apparent. Pervading and exacerbating all these political issues is a critical economic situation.

II. THE SUHARTO REGIME

5. *Suharto.* The reins of government in Indonesia are held by General Suharto, the army's Chief of Staff. Suharto has retained the leadership of the military over the past 16 months because he is personally acceptable to a very broad spectrum of high-ranking officers. They respect his considerable military abilities and they see him as the legitimate heir of the martyred General Yani. They especially admire his prompt and forceful response to the threat posed by the "30 September Movement." Suharto has also won the approval of most of his peers for his skill in reducing Sukarno's power with a minimum of domestic conflict. Inevitably, perhaps, some military hawks and certain civilian elements have become impatient with Suharto's cautious "Javanese" approach to the Sukarno problem and are highly critical of him. But no real rival to Suharto has appeared among the military leadership. General Nasution, once the leading Indonesian military figure, has accepted relegation to a figure-head position.

6. In the government, Suharto is chairman of the Cabinet Presidium of five "first ministers," each presiding over a group of portfolios. His own includes defense, internal security, and the army. His inner circle is made up of a small personal staff of politically oriented army colonels and a "kitchen cabinet" of 10 or so army generals who occupy key military positions or head important ministries. Suharto also consults a number of civilian intellectuals, primarily university economists.

7. *The Army.* The predominance of the army leadership depends basically on the armed strength of the 260,000-man force under its command. But it has also benefited from 20 years of active participation in domestic political and economic affairs. As this experience accumulated, army leaders developed a body of doctrine to justify the pervasive role of the military in national life. In it, they portrayed the army as the instrument best suited by dedication, training, and experience to guide the destiny of Indonesia.

8. The military is now free to take this leading role. Though Suharto has refrained from a complete military takeover, in order to preserve constitutional forms and hold the goodwill of non-Communist civilian parties and groups, he has been generous in apportioning executive and administrative jobs at every level to the military. The majority of provincial governors are now army officers. In some parts of the country, Sumatra for example, army commanders now exercise virtually unlimited political and economic power.

9. *The Civilians.* The army has a close working relationship with many able and influential anti-Sukarno political figures. Suharto's leading civilian collaborator in the Presidium is Adam Malik, who presides over domestic political affairs and the foreign ministry. Malik is probably the most brilliant and dynamic member of the administration. He has been a leader in the effort to diminish Sukarno's power, and single-handedly engineered Indonesia's return to the UN

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and other world bodies. Though once a leader of moderate elements in the small Murba (Proletarian) Party, Malik at present has almost no organized political following; this endears him to Suharto and the other generals who tend to be suspicious of politicians. Malik's dedication to the preservation of a major civilian role in government, however, has caused friction with those army leaders who would move toward a military junta. The only other important member of the Presidium is Buwono IX, the Sultan of Jogjakarta, who heads the Cabinet's economic and finance sector. The Sultan, though ineffectual in his job, brings to the government the prestige of a nationally respected and revered aristocrat. In the event of Sukarno's death or removal from office, he would be among the likely contenders for the Presidency.

10. The army leadership must also rely on thousands of civilian administrators, legislators, party leaders, and political activists to operate the government and the economy. Most of these figures are holdovers from the Sukarno era, men now willing to play the political game by the army's rules.

11. A major new factor in Indonesian political life was the formation, beginning in December 1965, of mass organizations called "action commands." These are confederations of anti-Communist functional groups—students, scholars, labor, women, teachers, farmers, businessmen, and others—and affiliates of the various religious parties. These organizations, particularly the student fronts, put more steam into the anti-Sukarno campaign by means of repeated mass demonstrations. They gained the encouragement and assistance of Malik and the army. Most of the action commands, however, proved to be ephemeral. The student fronts continue to support Suharto although they have been displeased by his cautious approach to the reduction of Sukarno's power.

12. The established, non-Communist political parties have played only a minor supporting role in the Suharto government. In the months immediately following the pro-Communist Putsch, Suharto found their mass organizations, particularly the youth affiliates, cooperative in crushing the PKI, and their leaders willing to back him vocally in the campaign to denigrate Sukarno. For a time, therefore, there was an unaccustomed unity of action among Indonesia's non-Communist political elements. But this unity was founded on self-interest: the parties were eager to reassert themselves after years of subordination to Sukarno and his Communist cronies; and they viewed the army as the instrument to return them to the power and influence they enjoyed prior to 1958 and the imposition of Sukarno's "guided democracy." Inevitably, as the Communist threat and Sukarno's power diminish, the politicians have become less inclined to accept military leadership and are reverting to their longstanding intramural rivalries. As a result, ties between the army and the parties are becoming seriously frayed.

13. At present, the influence of the old-line parties is exerted most prominently in the legislative organs of the Indonesian Government—the People's Consultative Assembly (chaired by Nasution) and the Parliament. Under the Sukarno regime, both were appointive, rubber-stamp bodies. Under Suharto, they have

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been given a more meaningful role and have been purged of Communists and Sukarnoists; their seats have been allotted to groups sympathetic to army objectives. The Assembly is constitutionally the nation's highest policymaking body and has been used by Suharto to legitimize major changes in Indonesian political life. The Parliament, which is subordinate to the Assembly, has the responsibility for proposing and passing legislation.

III. POLITICAL PROBLEMS AND PROSPECTS

A. Sukarno and the Communists

14. *Sukarno.* In their efforts to reorder the Indonesian political scene and proceed with the economic rehabilitation of the country, Suharto and his supporters are encountering numerous obstacles. Their most immediate problem is President Sukarno himself. Though his power has been severely circumscribed, he has not accepted defeat and continues to use his remaining assets to harass the Suharto regime.

15. Most Indonesians probably remain in awe of Sukarno whom they regard as the father of their country. Many are still prepared to accept his leadership; this is particularly true of his fellow Javanese in Central and East Java (as differentiated from the Sundanese who dominate West Java). These provinces already confront the Suharto regime with what it considers to be a serious security threat, one which would be aggravated by an outright attack on Sukarno. Suharto might be willing to risk civil disorder as the price for dumping Sukarno outright if he could be certain of support from the armed forces in these areas. But the army itself is not united in opposition to Sukarno. The government believes that junior officers and troops of the Diponegoro (Central Java) and Brawidjaja (East Java) Divisions generally remain loyal to Sukarno. Furthermore, they believe that he is strongly supported by significant elements of the Marines (KKO), a highly trained force of about 16,000, and the 23,000-man Police Mobile Brigade, both of which are still powerful in Central and East Java.

16. Sukarno's principal political support at this juncture is to be found within the Nationalist Party (PNI), one of the two remaining mass political organizations in the country. It was founded by Sukarno and has popularized and perpetuated itself largely by identifying with him and his "Marhaenist" philosophy, a sort of fuzzy Marxism. The PNI leftwing, which has great strength in Central and East Java, has always been slavishly devoted to Sukarno and for some years has been heavily penetrated by Communists. The party's leftist leadership was replaced by a more moderate and compliant group in April 1966, but this change has not greatly diminished pro-Sukarno sentiment among the rank-and-file of the PNI. There is evidence too that former members of the PKI are being recruited into the PNI to strengthen it against its Muslim opponents. There are Sukarnoites elsewhere in the Indonesian political spectrum, mainly among secularists who share PNI fears of a trend toward Muslim political domination in the event of a complete Suharto victory over leftist-nationalist elements.

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17. Sukarno's strengths are counterbalanced by many weaknesses. He has insufficient press and propaganda support to counter the intensive campaign mounted against him by the regime and its supporters. He no longer controls the governmental hierarchy, dispensing favors to the loyal and striking down opponents. He has been conspicuously unsuccessful in attempts to divide the army leadership. Finally, there is the heritage of mismanagement, corruption, and procommunism which Sukarno embodies and which the show trials of his former lieutenants have emphasized to the Indonesian public.

18. *The Communists.* Much of Sukarno's present weakness, of course, is attributable to the loss of his strongest political ally, the Communist Party, which once claimed 3,000,000 members. The PKI was severely damaged in the aftermath of the 30 September coup attempt. About one-half of the Central Committee was killed or imprisoned, including almost the entire Politburo. Party members and sympathizers constituted the vast majority of the 250,000 to 500,000 persons estimated to have been killed in the months following the abortive coup. Finally, in March 1966, the PKI and its numerous fronts were officially banned.

19. In the face of this onslaught, all but a hard core of the PKI appears to have melted away. The party has been reduced to a loosely structured underground organization of unknown size. One Indonesian official estimates PKI numbers at 150,000, but we cannot judge the validity of this figure. In any case, the PKI has apparently reconciled itself to the near impossibility of making any sort of political comeback within the next few years and has rejected the alternative of a paramilitary course of action. Instead, the party is concentrating on rebuilding its shattered organization along classic underground lines.

20. In order to create a favorable atmosphere in which to recover, PKI directives now urge the membership to assist pro-Sukarno forces to any extent possible. As a vehicle for such operations and as a useful cover for its members, the party has urged certain members to join the PNI and its youth and other affiliates. In addition, the Communists are infiltrating neighborhood and village associations in Central and East Java in hope of exploiting the weakness and corruption of rightwing officials, and the critical economic situation. There is no question that the PKI and its front organizations, which once dominated these provinces, retain a major potential there. Indeed, one of the chief problems facing the Suharto government is the provision of political alternatives for the millions who once looked to the PKI and its front organizations for alleviation of their social and economic problems. Failure to make some progress toward this objective might result in the development of a large PKI underground.

B. The "New Order" and the Civilians

21. Another major problem for the Suharto regime lies in its ambivalent relationship with civilian political elements. On the one hand, the ruling Suharto clique has shunned the term "junta," accorded major administrative responsibilities to civilians, and preserved, and even strengthened, existing forms of representative government. The regime is also pledged to hold legislative elections

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before July 1968 and, in turn, the legislative bodies are to select a President (presumably *not* Sukarno) and Vice President of Indonesia.

22. On the other hand, the military is clearly determined to preserve its existing leadership position well beyond mid-1968. The "new order" envisioned by the army is, in effect, the replacement of Sukarno's highly personalized, semi-mystical rule by institutions which would permit the army to retain general policy and administrative control while providing some sort of participation in government for the nation's varied political, religious, and functional components. Civilian political participation would be carefully limited to avoid what the army considers to be the excesses of the parliamentarians before 1958, a period in which the political parties spent most of their energies jockeying for power. Indeed, the army found little difficulty in supporting the more authoritarian rule instituted in that year by Sukarno under the name of "guided democracy."

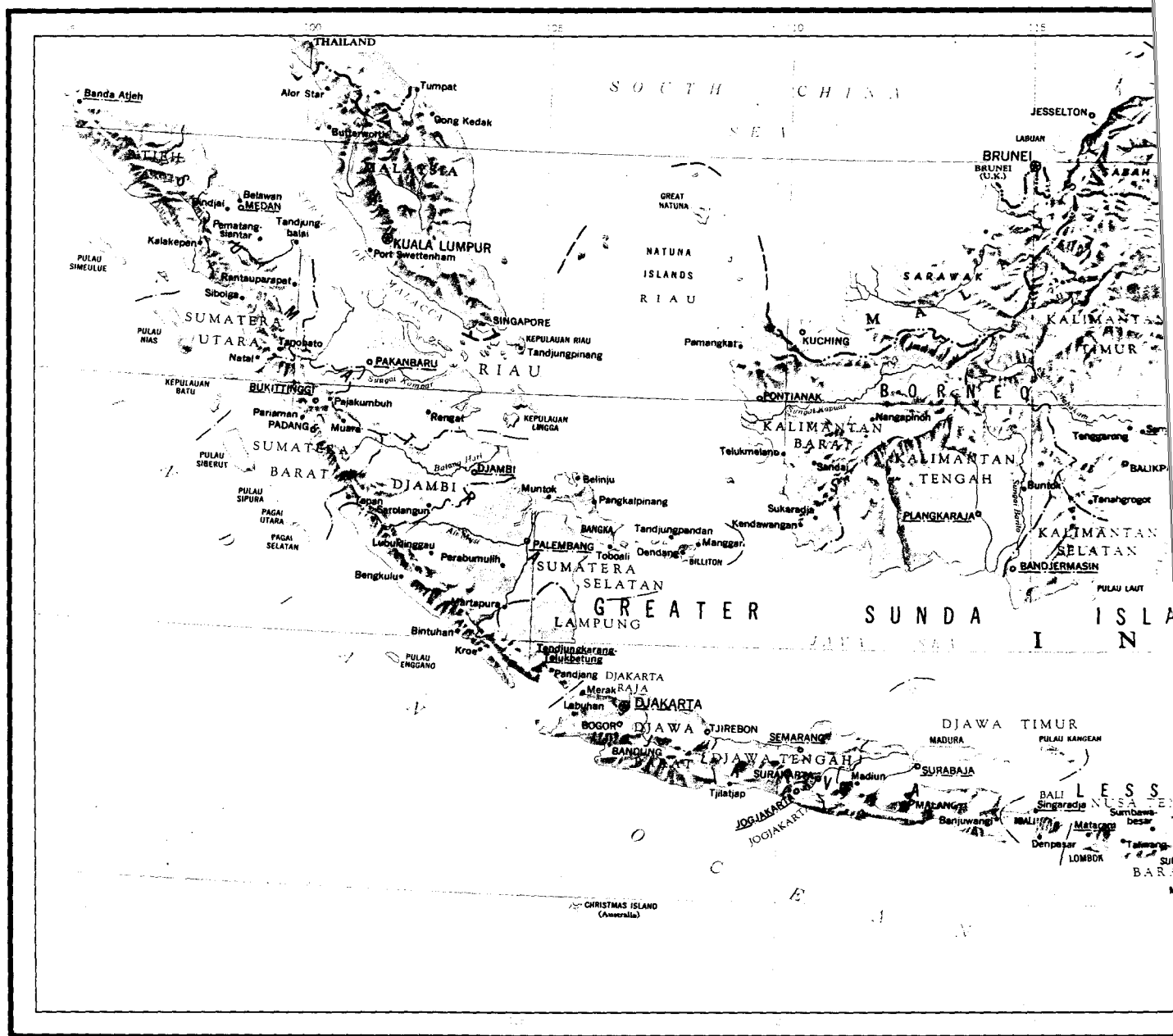
23. The old-line parties and the action fronts are aware of the army's intentions, but they too are determined to achieve a meaningful political role in the post-Sukarno era. Their leaders are constantly in motion, striking bargains and exploiting whatever assets they possess to extract concessions from the regime. Among the established parties, there is particular concern lest Suharto permit the resuscitation of competing parties proscribed by Sukarno in 1960. The country's largest party, the traditionalistic Nahdatul Ulama (Muslim Teachers Party—NU), fears the revival of the Masjumi, another large but more modernized Islamic party. The leftist PNI is somewhat apprehensive about the possible formation of a broad democratic-socialist coalition which might include liberal Masjumi elements, former Socialist Party members, and the recently revived Murba Party.¹ The five other legitimate political parties, none of them ever very strong, fear further dilution of their influence. The established parties are also greatly disturbed by the growth of the action fronts and the intimate relationships between action front leaders and Suharto's top aides.

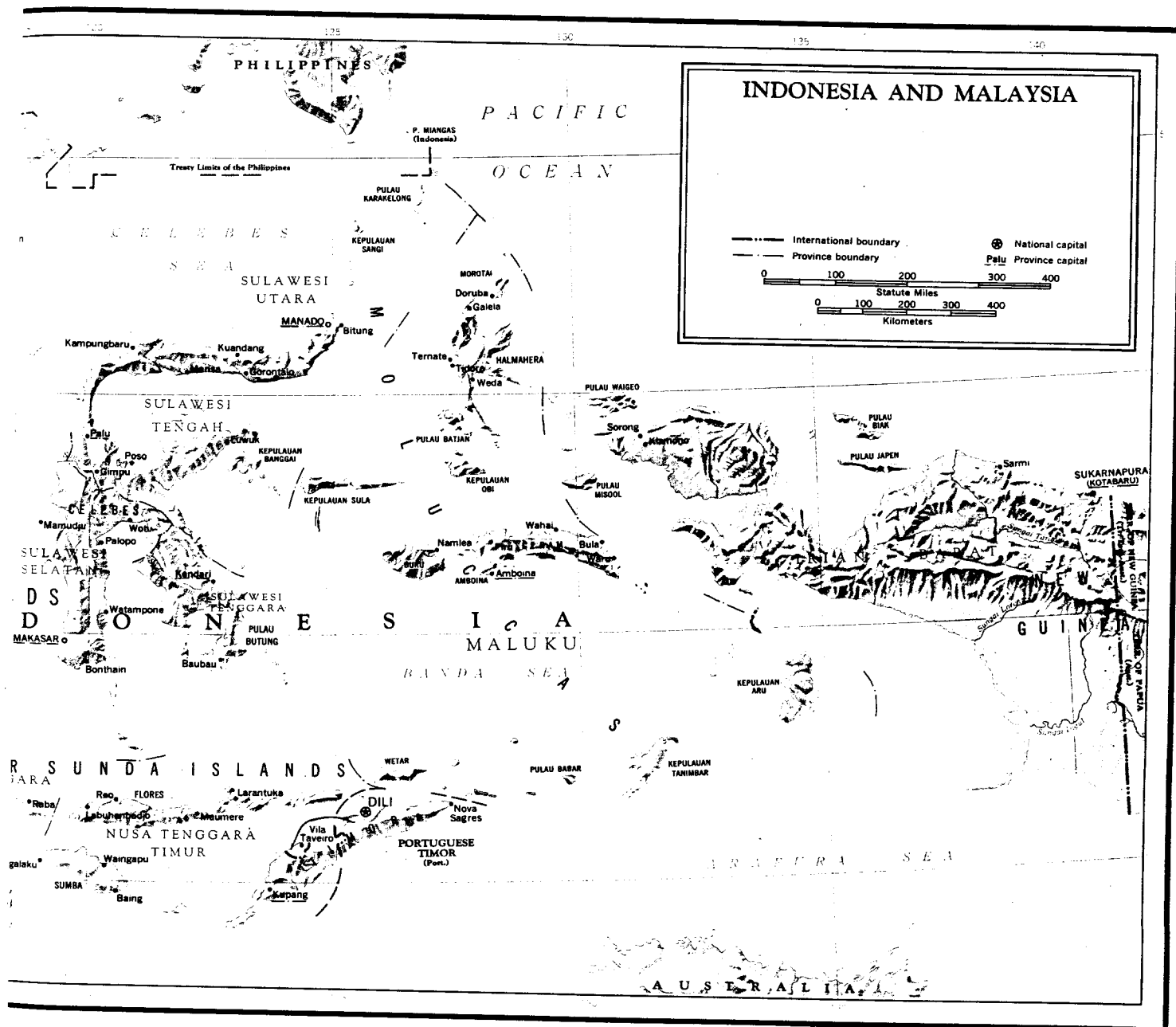
24. The action fronts comprised of students and intellectuals are probably the closest approach to an idealistically motivated prodemocratic force on the current Indonesian political scene. Over the coming year, the action front leaders will have the task of reconciling their supporters, particularly the youth, to the likelihood of indefinite military direction of the government. It is apparent that a degree of disillusionment with the military has already taken hold among these youthful reformers. To help counter this trend, Suharto has given many of their leaders appointive positions in the legislative bodies and is encouraging the conversion of the action commands into permanent movements on functional lines to rival the established old-line parties.

25. The election law being drafted by the army is likely to bring to a focus many existing and potential frictions between the regime and the civilian politi-

¹ Such a coalition, designed to provide a legitimate political home for left-of-center tendencies in Indonesia, would probably not attract a mass following comparable to that of the PNI or NU. The non-Communist left in Indonesia has never been numerically strong, probably because the Nationalists include enough socialism in their appeal to satisfy all but a relative handful of idealists and intellectuals.

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cians. The law may provide for the wholesale enlargement of both legislative bodies with many of the new seats apportioned to representatives of the action fronts, the functional groups, and the military itself, and, possibly, elements of the banned moderate parties. The influence of the PNI and NU would thereby be greatly diluted. The law may also provide a switch from the existing proportional representation electoral system to one based on single-member constituencies. This would further cut PNI and NU strength by lowering the number of seats allotted to Java where these parties have their main strength.

C. Prospects

26. It is likely that the Suharto regime will be able to maintain its predominance over the next year or two. Neither Sukarno, the Communists, the leftwing Nationalists, nor any combination of hostile political elements is capable of ousting Suharto so long as the army leadership remains substantially united behind him. Although there are some high-ranking officers and some troop contingents whose first loyalty is to Sukarno and whose attitude toward Suharto is therefore equivocal, they are outgunned by the pro-Suharto forces and unlikely to seek a test of strength.

27. It is possible that a particularly clumsy attempt by the Suharto clique to oust or persecute Sukarno would trigger a strong public reaction in Central and East Java which would gain the support of some pro-Sukarno elements of the armed forces. In actual combat, these elements could probably be overwhelmed or confined to a few isolated districts within a short time. Nevertheless, Suharto wants to avoid clashes of this sort; he fears irreparable damage to the unity of the armed forces, which to him is the bedrock of Indonesian political stability. It is probable therefore, that despite the urgings of the hawks, Suharto will for the time being handle Sukarno with much the same caution that he has shown since October 1965. There will probably be continuing efforts to denigrate the President; additional restrictions on his power; and new limitations on his freedom of speech and movement. In the end, he may be suspended from office "temporarily" or he may be completely ignored by the regime. At some point he may decide to leave the country rather than submit to further humiliation; this course would be heartily welcomed by Suharto. In any case, it is probable that during 1967 Sukarno will be stripped of all effective political power.

28. If Sukarno is not eliminated as a major factor on the political scene within a year or so, his presence will exacerbate the political frictions likely to characterize the preelection period. His voice would strengthen the campaigns of leftists seeking to discredit the military as inefficient and corrupt, and to publicize its failures, particularly in the economic realm. He would also maneuver behind the scenes in support of nonleftist interests willing to engage in political deals with him. He might even become the symbol or focus of a concerted effort by old-line politicians to maintain or expand their prerogatives vis-a-vis the military. Should this or similar threats to its continued leadership

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develop, chances are better than even that Suharto would postpone the 1968 elections indefinitely.

29. If Sukarno is effectively removed from the political scene in the coming months, the establishment of a more solidly based regime in 1968 or 1969 would probably be feasible. The conversion process is, however, likely to be plagued by intensified conflict between the military and the civilians, and between the old-line politicians and those of the "new order" (i.e., the action commands and the Sukarno-banned moderate parties).

30. Over the longer term, these conflicts will tend to merge with political questions even more fundamental to Indonesia's political evolution: the role of Islam; the legitimacy of Marxism; Java-based centralism versus outer-island federalism; and the conflict between traditional authoritarianism and Western democracy. Resolution of these issues could eventually involve new political upheavals in Indonesia; the danger of this will increase if the new regime is unable to achieve measurable progress in economic matters.

IV. ECONOMIC PROBLEMS AND PROSPECTS

31. *Problems.* Next to the problem of nullifying Sukarno's influence, the principal concern of the Suharto government is the resuscitation of the Indonesian economy after years of neglect, mismanagement, and corruption. Since the mid-1950's, domestic agricultural and mineral production (except for petroleum) has generally stagnated. The output of manufacturing and processing industries has declined sharply, mainly because of shortages of raw material and spare parts. Production problems have been exacerbated by rapid deterioration of an already inadequate transportation system.

32. The economic malaise has become especially acute in the past two years or so as a result of massive government budget deficits. These were brought about by heavy expenditures for the upkeep of the civil and military bureaucracy, the inordinate currency demands of Sukarno's prestige projects, the direct and indirect expenses of the campaign against Malaysia, and heavy requirements for the repayment of foreign debts.² Money to meet these needs was provided mainly by the printing press. This practice, coupled with the insufficiency of domestic production and the virtual absence of foreign exchange reserves with which to pay for imported goods, has caused a severe inflation, demoralizing to the urban populace and a hindrance to economic recovery.³

33. *Responses.* The Suharto regime appears determined to alleviate the economic situation. It has brought technically competent economists into high government circles, accepted assistance from international economic and techni-

² Indonesia's external debt at the end of June 1966 was \$2.2 billion, more than 90 percent in long- and medium-term debts. Debt repayments due in 1966 totaled \$530 million (including arrears of \$150 million from 1965 and earlier); \$360 million is due in 1967. Defaults on debts to Communist countries have occurred since 1962 and to other countries since 1965.

³ The Djakarta cost-of-living index, for example, increased more than 25-fold between December 1964 and June 1966.

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cal organizations, and adopted a generally open-minded and pragmatic approach to the solution of its problems. A stabilization program has been prepared with help from the International Monetary Fund (IMF). It is aimed at reducing the rate of inflation and increasing output in all fields. Key objectives include: austerity in expenditures, to be achieved in 1967 mainly by suspension of Sukarno's grandiose projects and other nonessential government investment; increased tax collections; revision of the banking system, including exchange and currency reforms designed to increase export incentives; strict credit controls; and promotion of private investment, domestic as well as foreign. With regard to foreign investment, liberalized regulations have already been adopted and some foreign property seized during the confrontation campaign has been returned. In addition, Indonesia has rejoined the UN and its agencies, and applied for readmission to the IMF and the World Bank; it has also joined the Asian Development Bank. Finally, confrontation of Malaysia has been officially ended, opening the way for large reductions in navy and air force expenditures and favorable Western consideration of Indonesian economic requirements.

34. To a great extent the stabilization program and other recent domestic economic measures are designed to meet the requirements of Indonesia's foreign creditors. Creditor nations were approached concerning rescheduling of debt repayment obligations and additional aid in the form of food staples, industrial raw materials (chiefly cotton), and spare parts. In general, the response has been good. Representatives of Free World countries⁴ agreed in December 1966 to grant a one-year moratorium on principal and interest payments due in 1967. These payments along with defaults prior to 1967 total about \$350 million and are to be rescheduled over an eight-year period beginning in 1971. No decision was made with regard to about \$650 million in payments due in 1968 and thereafter under old schedules, but remedial action by the creditors before 1968 appears likely. Since October 1965, too, several Western countries and Japan have agreed to provide new financial assistance totaling \$150 million. The provision of an additional \$250 million in credits is under discussion.

35. The European Communist nations hold about 55 percent of Indonesia's foreign debt; the USSR holds \$850 million and a total of \$350 million is held by Czechoslovakia, Yugoslavia, and East Germany. Despite its refusal to sit down with the Western creditors to discuss Indonesian needs, the USSR has agreed bilaterally to reschedule almost all of Indonesia's debt to it. An agreement reached in November 1966 provides a two-year moratorium on virtually all medium- and long-term debt, and schedules payments over 13 years beginning in mid-1969. In addition, the USSR agreed to ease repayment schedules for certain short-term commercial debts. The other Communist creditors appear likely to follow the Soviet example to some extent.

36. *Prospects.* Aside from debt relief, Suharto's economic stabilization program is still largely in the planning stage. Although prices have steadied in

⁴The group includes four major creditors (Japan, the US, West Germany, and France), three minor creditors (The Netherlands, Italy, and the UK), and Australia and New Zealand.

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recent weeks and tax revenues are reportedly increasing under tightened collection procedures, the success of the stabilization program remains in doubt. Sustained implementation will be difficult. More than 50 percent of governmental expenditures are for salaries; major budget cuts would disturb such key elements of the population as the military and the civil bureaucracy. These groups as well as other urban elements would suffer from removal of price subsidies on certain categories of domestic goods. And there would be general disapproval of measures to tighten tax collection. Aware of the potential explosiveness of the situation, Suharto will probably not find it politically expedient to implement all the measures set forth in his plans for balancing the budget.

37. There are also major roadblocks to rapid increases in production for the domestic market or for export. The output of agricultural and mineral products may climb, but it is unlikely to do so in any significant way until modern production techniques are introduced and take hold; even under optimum conditions, this could take several years. An exception is the production of petroleum and petroleum products, largely in foreign hands, which could show major increases in a year or two. Certain manufacturing industries could also increase output relatively quickly if adequate supplies of raw materials and spare parts become available soon.

38. Much will depend on the willingness of foreign nations to extend credits. The IMF estimates that in 1967 at least \$230 million of new foreign commodity credits will be required to finance needed imports of essential consumer goods, spare parts, and raw materials. Though this amount may be realized, some potential donors will base their decisions in part on Indonesian economic performance to date; in some cases, this may tend to stem the flow of needed assistance to the Indonesians. Without such assistance, economic conditions would almost certainly continue to deteriorate. A runaway inflation would probably develop in the urban sector of the economy, urban discontent would rise, and civil disorder might result.

39. The difficulties in stabilizing the Indonesian economy are apparent, but some aspects are mildly encouraging. Foremost, the leadership is rational and apparently convinced that economic progress is the key to its eventual political success. Of equal importance, Free World nations have recognized a mutuality of interest in assisting Suharto's efforts and several will probably provide major new credits. Indonesia will look primarily to the US and Japan for such assistance.

40. In summary, although Indonesia cannot undo the consequences of a decade or more of economic neglect within a year or two, we believe that economic conditions will at least cease to deteriorate and begin to improve during that period. If foreign assistance continues at high levels and government administration becomes more effective, an economic upturn could probably be sustained for a few years more, perhaps until 1970.

41. Longer term prospects for economic growth, however, will depend mainly on Indonesia's ability to expand exports and to mobilize domestic resources

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for investment. Foreign developmental assistance cannot provide more than a small part of the investment required to achieve substantial economic growth. And repayments of foreign debts will grow during the 1970's, eating up an increasingly high proportion of export earnings which might otherwise finance imports of machinery and equipment. Even if Indonesia could finance a large increase in such imports, its low per capita income would make it difficult to secure the domestic financial resources required for substantial investment.

V. FOREIGN AFFAIRS

42. The reversal of the Indonesian political situation since 30 September 1965 has been matched by events in the foreign policy sphere. Sukarno's Djakarta-Peking "axis" has disappeared, to be replaced by a posture of "non-alignment." This new policy is founded on Indonesian fear and distrust of Communist China and its ambitions in Southeast Asia. To a lesser but important degree, it is based on Djakarta's need for massive economic assistance, which can only be expected to come from the US, Japan, and Western Europe. In practical terms, therefore, it is a Western-leaning nonalignment.

43. The new pragmatism in the conduct of Indonesian foreign policy is also evident in the Suharto regime's attitude toward the "third world." Sukarno's costly effort to place Indonesia at the head of the world's "new emerging forces" in the struggle against "imperialism" has been replaced by near-total disinterest in the affairs of Latin America, Africa, and the Arab world. Regional ambitions, on the other hand, undoubtedly persist in Djakarta. But unlike Sukarno, the military leadership appears willing to subordinate them, at least temporarily, to the exigencies of the critical domestic economic situation.

44. *Malaysia.* In August 1966, Indonesian and Malaysian officials announced agreement on the termination of Sukarno's three-year campaign to dismember Malaysia. Indonesian paramilitary activities in East and West Malaysia and Singapore ceased shortly thereafter, and the bulk of the Indonesian force in the frontier areas has since been withdrawn. Indonesian-sponsored, anti-Malaysia rebels in Borneo have similarly ceased paramilitary action, and some groups have been disbanded. Several hundred Indonesian-trained, ethnic Chinese rebels from Sarawak, however, have retreated into remote areas of Indonesian Borneo and refused to surrender their arms. The Suharto government probably intends to keep its bargain with Kuala Lumpur and will forgo any significant guerrilla or terrorist activity in East or West Malaysia for the foreseeable future.

45. The end of confrontation signifies, among other things, a reevaluation of Indonesian problems and opportunities in Borneo and elsewhere in Malaysia. Indonesia now seems to be contemplating a new and subdued course to achieve its aims in these areas. It will probably cooperate closely with the Malaysian government in suppressing dissidence among ethnic Chinese in Sarawak and Sabah, hoping thereby to gain a legitimate internal security role and a political presence in these territories. At the same time, however, Djakarta will prob-

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ably assist those non-Chinese political dissidents who favor and will work for a broadening of Indonesian influence in Malaysian Borneo.

46. These new Indonesian tactics look beyond their immediate objectives in Borneo. The Indonesian leaders almost certainly look forward to the establishment of an extremely close politico-military relationship with Malaysia in which Indonesia is clearly the senior partner. This arrangement is justified in Indonesian eyes by the "threat" posed by the ethnic Chinese of Singapore and Malaysia. Although Indonesia is unlikely to achieve the hegemony it seeks in the Malaysian area over the next few years, it will probably make some progress toward this objective, chiefly in terms of closer political and military links with the Malaysian Government and an increased Indonesian presence in Sarawak and Sabah. Indonesia's chances will be enhanced by the generally favorable attitude of the Malay leaders and populace toward the Suharto group.

47. There is also real interest in Indonesia in forming a regional grouping to include the members of the Association of Southeast Asia (Thailand, Malaysia, and the Philippines) and possibly Burma, Cambodia, and Laos as well. There is little question however, that Indonesia sees itself assuming eventual leadership of such a group. One obstacle, among many, to its formation is Malik's fear of compromising Indonesia's "nonaligned" status.

48. There has been no indication that the Suharto regime intends to modify the long-held Indonesian doctrine that all waters within and leading into the Indonesian archipelago are its territorial waters. In attempting to establish this principle, Indonesia will probably continue to require prior notification with regard to the movement of warships through waters it claims to be territorial.

49. *Communist China and Elsewhere in the Western Pacific.* The generals in Djakarta have always viewed the threat from Peking as the foremost concern of the Indonesian defense establishment. And they were quite ready to believe that Communist China had encouraged and assisted the pro-Communist plotters who murdered the six army generals and attempted to seize power on 1 October. Consequently, relations between Djakarta and Peking have deteriorated rapidly since that time. There have been vituperative radio broadcasts and denunciatory diplomatic notes on both sides. The Chinese Embassy and other Peking installations in Djakarta have been attacked on several occasions. All Chinese Consulates—Medan, Makasar, and Bandjermasin—have been closed. Representation of both countries has been sharply reduced and is now led in each capital by a charge d'affaires.

50. Apparently, neither country has wanted to go so far as a formal break in diplomatic relations. Malik and the generals are probably concerned about damage to their Afro-Asian and neutralist image, and may also be apprehensive about unnecessarily provoking the Chinese. Peking probably does not want to lose contact with Indonesia's large Chinese community and the China-leaning Indonesian Communists. Relations are unlikely to improve, however, so long as the Suharto government holds power in Indonesia. Some unforeseen development, perhaps one involving Indonesian persecution of its Chinese com-

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munity or China's steadily increasing support for dissident Indonesian leftists resident in Peking, could lead to a complete diplomatic break in the near future.

51. Djakarta's split with Peking has had an impact on Indonesian relationships with other states of South and Southeast Asia. In general, there has been a cooling of relations with countries associated with Communist China and substantial improvement with those hostile to China. For example, relations with India, which reached their nadir when Sukarno provided military aid to Pakistan in early 1965, are vastly improved; relations with Pakistan are now cool.

52. Another measure of Indonesian movement away from the cliches of the Sukarno era is its quietly emerging relationship with Nationalist China. Indonesia has focused on securing modest quantities of economic assistance from Taipei, but there have also been moves toward arranging some sort of commercial or consular representation for the Nationalists in Djakarta in order to offer an alternative to Indonesia's powerful Chinese business interests. Consular relations with South Korea, broken by Sukarno, have already been reestablished and it is probable that diplomatic representation will also be restored. Foreign Minister Malik does not wish to offend Pyongyang, but he apparently values economic and political relations with the South Koreans more. Nor is there any great hostility in Djakarta toward Hanoi. Indeed, many Indonesian leaders clearly sympathize with North Vietnam in its present predicament, and some hope eventually to become acceptable as mediators of the Vietnam war; nevertheless, Indonesia is moving toward consular relations with the rival Saigon regime.

53. Good Indonesian relationships with Australia and New Zealand have been restored with the termination of confrontation. Friendship with Australia has been further bolstered by Malik's expressed intention of cooperation with Australia and The Netherlands on matters concerning West New Guinea. He has apparently decided to honor the agreement of 1962 to hold some sort of plebiscite in that territory by 1969; and Indonesia has begun joint surveys of the border between West and Australian New Guinea. Friendship toward Australia and New Zealand does not, however, carry over into relations with the UK. Djakarta remains anxious to see the end of the British military presence in Malaysia, Singapore, and the protectorate of Brunei.

54. *The USSR and the US.* The US has clearly benefited from the downfall of Sukarno and his Communist allies. The Soviet attitude toward the turnabout in Indonesian domestic affairs is ambivalent. The USSR is pleased by the elimination of Peking's influence in the government and not unduly upset by the downfall of the pro-Peking PKI leadership. The end of confrontation was probably welcomed too. But it is concerned by the violently anti-Communist and anti-Marxist orientation of the Suharto regime and the pro-Western attitudes of most of its leaders. Moreover, there is real apprehension that Suharto's "new order" will move even further to the right domestically and, driven by fear of Communist China, into outright military alliance with the US or some of its Asian associates.

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55. To forestall such trends, and to safeguard their own extensive military investment in Indonesia, the Soviets are maintaining a correct, though cool, relationship with Djakarta. After much haggling, they have agreed to accommodate Indonesia in the matter of rescheduling debts. They have promised to resume shipments of military equipment, suspended for more than a year. Certain minor joint economic projects may also be resumed. On the other hand, the military shipments will probably be little more than a trickle of replacements and spare parts; credit terms will be relatively rigorous. And it will be made clear to the leaders of the Indonesian armed forces, largely equipped by the Soviets, that expansion or contraction of this flow depends on continued adherence to a policy of nonalignment.

56. In estimating the extent of Suharto's deviation from acceptable patterns, the USSR will probably pay close attention to the course of Indonesian relations with such countries as the UAR, Yugoslavia, and North Vietnam on one hand, and its developing ties with Nationalist China, the Philippines, Thailand, and South Korea on the other. Aware of this scrutiny and eager to maintain some semblance of balance between East and West, Djakarta will probably try to handle its future relations with such countries cautiously, avoiding any unnecessary affront to the USSR. Nevertheless, so long as the US continues to assist in the rehabilitation of the Indonesian economy and the Indonesians retain hope of even greater assistance, their relations with the US are likely to remain as close and cordial as at present. Future relationships may be complicated by Indonesian requests for large-scale US military aid, but as yet this has not become an issue.

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